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LOCAL AUDIT & FINANCE DIV.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2005

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

|  |  |   |                      |
|--|--|---|----------------------|
| <b>Local Government Type</b><br><input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |  | <b>Local Government Name</b><br>Township of Frankenlust               | <b>County</b><br>Bay |
| <b>Audit Date</b><br>June 30, 2005   | <b>Opinion Date</b><br>August 19, 2005 | <b>Date Accountant Report Submitted to State:</b><br>December 2, 2005 |                      |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |  |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).   |

| We have enclosed the following:   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | X        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | X            |
| Single Audit Reports (ASLGU).   |          |                 | X            |

|  |                         |                    |                     |
|--|-------------------------|--------------------|---------------------|
| <b>Certified Public Accountant (Firm Name)</b><br>Campbell, Kusterer & Co., P.C. |                         |                    |                     |
| <b>Street Address</b><br>512 N. Lincoln, Suite 100, P.O. Box 686                 | <b>City</b><br>Bay City | <b>State</b><br>MI | <b>Zip</b><br>48707 |
| <b>Accountant Signature</b><br>Campbell, Kusterer & Co., P.C.                    |                         |                    |                     |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report  | 1           |
| Management's Discussion and Analysis  | 2-3         |
| Basic Financial Statements:   |             |
| Government-wide Financial Statements:   |             |
| Government-wide Statement of Net Assets   | 4           |
| Government-wide Statement of Activities   | 5           |
| Fund Financial Statements:  |             |
| Governmental Funds:   |             |
| Balance Sheet   | 6           |
| Reconciliation of Balance Sheet of Governmental Funds to the Statement of<br>Net Assets   | 7           |
| Statement of Revenues, Expenditures, and Changes in Fund Balances   | 8           |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes<br>in Fund Balances of Governmental Funds to the Statement of Activities | 9           |
| Business-Type Funds:  |             |
| Statement of Net Assets   | 10          |
| Statement of Revenues, Expenses and Changes in Net Assets   | 11          |
| Statement of Cash Flows   | 12          |
| Notes to Financial Statements   | 13-21       |
| Required Supplemental Information:  |             |
| Budgetary Comparison Schedule – General Fund  | 22          |
| Budgetary Comparison Schedule – Trash Collection Fund   | 23          |
| Budgetary Comparison Schedule – Fire Equipment Fund   | 24          |
| Budgetary Comparison Schedule – Building Department Fund  | 25          |
| Other Supporting Information:   |             |
| General Fund Expenditures by Detailed Account   | 26-27       |
| Combining Balance Sheet – All Special Revenue Funds   | 28          |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Combining Statement of Revenues, Expenditures and Changes in Fund<br>Balances – All Special Revenue Funds | 29          |
| Current Tax Collection Fund Statement of Changes in Assets and Liabilities                                | 30          |
| Current Tax Collection Fund Statement of Cash Receipts and Disbursements                                  | 31          |

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

August 19, 2005

To the Township Board  
Township of Frankenlust  
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, business type activities and each major fund of Township of Frankenlust, Bay County, Michigan as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Frankenlust's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of the Township of Frankenlust, Bay County, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2005

The Management's Discussion and Analysis report of the Township of Frankenlust covers the Township's financial performance during the year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

The Township's ending fund balances in all accounts is adequate for a Township of our size. The General Fund carries a balance equal to about 8 months of expenditures. State revenue sharing has dropped each of the last few years and is expected to drop again in 2006. The Board anticipates this problem and has not overextended their obligations.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government and business type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2005

FUND FINANCIAL STATEMENTS (continued)

The Township has the following types of funds:

Governmental Funds: Some of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund and the Special Revenue Funds.

Business-Type Funds: The Township has a Water and Sewer Fund which includes the activities of providing water and sewer services.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

The Township adopted its budget after presentation at the annual meeting held in June 2004. The Board amended the Township budget several times, in accordance with the requirements for Government accounting. The budget and all amendments were published in the Bay City Democrat.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The Township's General Fund pays for most of the Township's Governmental services. Township total expenditures exceeded total revenue for the fiscal year by \$52,941.97. The extra funds were available in the unappropriated beginning balance of \$342,855.64. This account has a remaining balance of \$289,913.67 at the end of the fiscal year.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township is purchasing approximately 23 acres of land which includes a pond for creation of a new nature park. The purchase price is \$150,000.00 with \$50,000.00 paid during the current fiscal year.

All bond debt was paid as scheduled.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

A sewer is being built along parts of the Delta, Frankenlust, Kraenzlein, Amelith, Kloha and Mackinaw Roads. The Township has bonded for this project through the Bay Area Authority. A new sewer account has been established and all costs will be paid by the property owners benefited by the sewer.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions or comments about this report please contact the Clerk's office.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
June 30, 2005

|  | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>          |
|--|------------------------------------|-------------------------------------|-----------------------|
| ASSETS:  |                                    |                                     |                       |
| CURRENT ASSETS:                                    |                                    |                                     |                       |
| Cash in bank                                       | 738 181 91                         | 2 655 167 63                        | 3 393 349 54          |
| Investments  | 77 859 62                          | -                                   | 77 859 62             |
| Taxes receivable                                   | 21 670 44                          | -                                   | 21 670 44             |
| Special assessments receivable                     | <u>6 634 68</u>                    | <u>5 555 14</u>                     | <u>12 189 82</u>      |
| Total Current Assets                               | <u>844 346 65</u>                  | <u>2 660 722 77</u>                 | <u>3 505 069 42</u>   |
| NON-CURRENT ASSETS:                                |                                    |                                     |                       |
| Capital Assets                                     | 946 794 60                         | 4 721 298 62                        | 5 668 093 22          |
| Less: Accumulated Depreciation                     | <u>(454 446 92)</u>                | <u>(627 750 00)</u>                 | <u>(1 082 196 92)</u> |
| Total Non-current Assets                           | <u>492 347 68</u>                  | <u>4 093 548 62</u>                 | <u>4 585 896 30</u>   |
| TOTAL ASSETS                                       | <u>1 336 694 33</u>                | <u>6 754 271 39</u>                 | <u>8 090 965 72</u>   |
| LIABILITIES AND NET ASSETS:                        |                                    |                                     |                       |
| LIABILITIES:                                       |                                    |                                     |                       |
| CURRENT LIABILITIES                                | <u>-</u>                           | <u>-</u>                            | <u>-</u>              |
| Total Current Liabilities                          | <u>-</u>                           | <u>-</u>                            | <u>-</u>              |
| NON-CURRENT LIABILITIES:                           |                                    |                                     |                       |
| Contracts payable                                  | <u>-</u>                           | <u>5 015 000 00</u>                 | <u>5 015 000 00</u>   |
| Total Non-current Liabilities                      | <u>-</u>                           | <u>5 015 000 00</u>                 | <u>5 015 000 00</u>   |
| Total Liabilities                                  | <u>-</u>                           | <u>5 015 000 00</u>                 | <u>5 015 000 00</u>   |
| NET ASSETS:  |                                    |                                     |                       |
| Invested in Capital Assets,<br>Net of Related Debt | 492 347 68                         | 197 250 00                          | 689 597 68            |
| Restricted for debt service                        | -                                  | 710 768 19                          | 710 768 19            |
| Unrestricted                                       | <u>844 346 65</u>                  | <u>831 253 20</u>                   | <u>1 675 599 85</u>   |
| Total Net Assets                                   | <u>1 336 694 33</u>                | <u>1 739 271 39</u>                 | <u>3 075 965 72</u>   |
| TOTAL LIABILITIES AND NET ASSETS                   | <u>1 336 694 33</u>                | <u>6 754 271 39</u>                 | <u>8 090 965 72</u>   |

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended June 30, 2005

|                                | <u>Expenses</u>     | <u>Program<br/>Revenue</u> | <u>Governmental<br/>Activities<br/>Net (Expense)<br/>Revenue and<br/>Changes in Net<br/>Assets</u> |
|--------------------------------|---------------------|----------------------------|--|
| <b>FUNCTIONS/PROGRAMS</b>      |                     |                            |  |
| Governmental Activities:       |                     |                            |  |
| Legislative                    | 70 024 24           | -                          | (70 024 24)  |
| General government             | 206 060 72          | 82 341 14                  | (123 719 58)   |
| Public safety                  | 246 908 52          | 176 134 00                 | (70 774 52)  |
| Public works                   | 198 304 29          | 124 144 68                 | (74 159 61)  |
| Recreation and culture         | <u>742 22</u>       | <u>-</u>                   | <u>(742 22)</u>  |
| Total Governmental Activities  | <u>722 039 99</u>   | <u>382 619 82</u>          | <u>(339 420 17)</u>  |
| Business-Type Activities:      |                     |                            |  |
| Water and sewer                | <u>302 272 50</u>   | <u>650 273 81</u>          | <u>-</u>   |
| Total Business-Type Activities | <u>302 272 50</u>   | <u>650 273 81</u>          | <u>-</u>   |
| Total Government               | <u>1 024 312 49</u> | <u>1 032 893 63</u>        | <u>(339 420 17)</u>  |
| General Revenues:              |                     |                            |  |
| Property taxes                 |                     |                            | 202 252 58   |
| State revenue sharing          |                     |                            | 175 375 80   |
| Interest                       |                     |                            | 12 913 00  |
| Miscellaneous                  |                     |                            | <u>32 041 48</u>   |
| Total General Revenues         |                     |                            | <u>422 582 86</u>  |
| Change in net assets           |                     |                            | 83 162 69  |
| Net assets, beginning of year  |                     |                            | <u>1 253 531 64</u>  |
| Net Assets, End of Year        |                     |                            | <u>1 336 694 33</u>  |

The accompanying notes are an integral part of these financial statements.

| <u>Business-Type<br/>Activities</u>                                | <u>Total</u>   |
|--|--|
| <u>Net (Expense)<br/>Revenue and<br/>Changes in Net<br/>Assets</u> | <u>Net (Expense)<br/>Revenue and<br/>Changes in Net<br/>Assets</u> |
| -  | (70 024 24)  |
| -  | (123 719 58)   |
| -  | (70 774 52)  |
| -  | (74 159 61)  |
| -  | (742 22)   |
| -  | (339 420 17)   |
| <u>348 001 31</u>  | <u>348 001 31</u>  |
| <u>348 001 31</u>  | <u>348 001 31</u>  |
| <u>348 001 31</u>  | <u>8 581 14</u>  |
| -  | 202 252 58   |
| -  | 175 375 80   |
| 35 810 70  | 48 723 70  |
| -  | 32 041 48  |
| <u>35 810 70</u>   | <u>458 393 56</u>  |
| 383 812 01   | 466 974 70   |
| <u>1 355 459 38</u>  | <u>2 608 991 02</u>  |
| <u>1 739 271 39</u>  | <u>3 075 965 72</u>  |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
June 30, 2005

|                                    | <u>General</u>    | <u>Trash<br/>Collection</u> | <u>Fire<br/>Equipment</u> | <u>Building<br/>Department</u> |
|------------------------------------|-------------------|-----------------------------|---------------------------|--------------------------------|
| <u>Assets</u>                      |                   |                             |                           |                                |
| Cash in bank                       | 196 245 21        | 195 089 71                  | 121 781 78                | 210 287 15                     |
| Investments                        | 77 859 62         | -                           | -                         | -                              |
| Taxes receivable                   | 15 751 11         | -                           | 5 919 33                  | -                              |
| Special assessments receivable     | -                 | 6 634 68                    | -                         | -                              |
| Due from other funds               | 57 73             | -                           | -                         | -                              |
| Total Assets                       | <u>289 913 67</u> | <u>201 724 39</u>           | <u>127 701 11</u>         | <u>210 287 15</u>              |
| <u>Liabilities and Fund Equity</u> |                   |                             |                           |                                |
| Liabilities                        | -                 | -                           | -                         | -                              |
| Total liabilities                  | -                 | -                           | -                         | -                              |
| Fund equity:                       |                   |                             |                           |                                |
| Fund balances:                     |                   |                             |                           |                                |
| Unreserved:                        |                   |                             |                           |                                |
| Undesignated                       | 289 913 67        | 201 724 39                  | 127 701 11                | 210 287 15                     |
| Total fund equity                  | <u>289 913 67</u> | <u>201 724 39</u>           | <u>127 701 11</u>         | <u>210 287 15</u>              |
| Total Liabilities and Fund Equity  | <u>289 913 67</u> | <u>201 724 39</u>           | <u>127 701 11</u>         | <u>210 287 15</u>              |

The accompanying notes are an integral part of these financial statements.

| <u>Other<br/>Funds</u> | <u>Total</u>      |
|------------------------|-------------------|
| 14 720 33              | 738 124 18        |
| -                      | 77 859 62         |
| -                      | 21 670 44         |
| -                      | 6 634 68          |
| -                      | 57 73             |
| <u>14 720 33</u>       | <u>844 346 65</u> |
| <u>-</u>               | <u>-</u>          |
| <u>-</u>               | <u>-</u>          |
| <u>14 720 33</u>       | <u>844 346 65</u> |
| <u>14 720 33</u>       | <u>844 346 65</u> |
| <u>14 720 33</u>       | <u>844 346 65</u> |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS

June 30, 2005

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS

June 30, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS 844 346 65

Amounts reported for governmental activities in the statement of  
net assets are different because –

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the governmental funds balance sheet:

|                          |                     |
|--------------------------|---------------------|
| Capital assets at cost   | 946 794 60          |
| Accumulated depreciation | <u>(454 446 92)</u> |

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES 1 336 694 33

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
Year ended June 30, 2005

|  | <u>General</u>           | <u>Trash<br/>Collection</u> | <u>Fire<br/>Equipment</u> | <u>Building<br/>Department</u> |
|--|--------------------------|-----------------------------|---------------------------|--------------------------------|
| Revenues:  |                          |                             |                           |                                |
| Property taxes                                       | 133 318 18               | -                           | 68 934 40                 | -                              |
| Licenses and permits                                 | 4 991 00                 | -                           | -                         | 172 059 00                     |
| State revenue sharing                                | 171 627 00               | -                           | -                         | -                              |
| Charges for services:                                |                          |                             |                           |                                |
| Property tax administration                          | 45 614 59                | -                           | -                         | -                              |
| Other  | 3 559 25                 | -                           | -                         | -                              |
| Interest   | 9 405 59                 | 2 519 71                    | 939 67                    | -                              |
| Rents  | 20 352 76                | -                           | -                         | -                              |
| Special assessments                                  | 7 823 54                 | 124 144 68                  | -                         | -                              |
| Miscellaneous  | 32 041 48                | -                           | -                         | -                              |
| Total revenues                                       | <u>428 733 39</u>        | <u>126 664 39</u>           | <u>69 874 07</u>          | <u>172 059 00</u>              |
| Expenditures:  |                          |                             |                           |                                |
| Legislative:   |                          |                             |                           |                                |
| Township Board                                       | 70 024 24                | -                           | -                         | -                              |
| General government:                                  |                          |                             |                           |                                |
| Supervisor   | 25 404 38                | -                           | -                         | -                              |
| Elections  | 5 644 86                 | -                           | -                         | -                              |
| Assessor   | 39 313 23                | -                           | -                         | -                              |
| Clerk  | 37 158 11                | -                           | -                         | -                              |
| Board of Review                                      | 1 035 00                 | -                           | -                         | -                              |
| Treasurer  | 37 812 65                | -                           | -                         | -                              |
| Building and grounds                                 | 41 758 53                | -                           | -                         | -                              |
| Public safety:                                       |                          |                             |                           |                                |
| Law enforcement                                      | 7 454 46                 | -                           | -                         | -                              |
| Fire protection                                      | 72 501 92                | -                           | 13 578 65                 | -                              |
| Protective inspection                                | -                        | -                           | -                         | 106 960 95                     |
| Planning and zoning                                  | 17 728 25                | -                           | -                         | -                              |
| Public works:  |                          |                             |                           |                                |
| Highways and streets                                 | 57 550 24                | -                           | -                         | -                              |
| Sanitation   | -                        | 140 754 05                  | -                         | -                              |
| Culture and recreation:                              |                          |                             |                           |                                |
| Recreation   | 742 22                   | -                           | -                         | -                              |
| Capital outlay                                       | 50 000 00                | -                           | -                         | -                              |
| Debt service   | 17 547 27                | -                           | -                         | -                              |
| Total expenditures                                   | <u>481 675 36</u>        | <u>140 754 05</u>           | <u>13 578 65</u>          | <u>106 960 95</u>              |
| Excess (deficiency) of revenues<br>over expenditures | (52 941 97)              | (14 089 66)                 | 56 295 42                 | 65 098 05                      |
| Fund balances, July 1                                | <u>342 855 64</u>        | <u>215 814 05</u>           | <u>71 405 69</u>          | <u>145 189 10</u>              |
| Fund Balances, June 30                               | <u><u>289 913 67</u></u> | <u><u>201 724 39</u></u>    | <u><u>127 701 11</u></u>  | <u><u>210 287 15</u></u>       |

The accompanying notes are an integral part of these financial statements.

| <u>Other<br/>Funds</u> | <u>Total</u>      |
|------------------------|-------------------|
| -                      | 202 252 58        |
| -                      | 177 050 00        |
| 3 748 80               | 175 375 80        |
| -                      | 45 614 59         |
| 4 075 00               | 7 634 25          |
| 48 03                  | 12 913 00         |
| -                      | 20 352 76         |
| -                      | 131 968 22        |
| -                      | 32 041 48         |
| <u>7 871 83</u>        | <u>805 202 68</u> |
| -                      | 70 024 24         |
| -                      | 25 404 38         |
| -                      | 5 644 86          |
| -                      | 39 313 23         |
| -                      | 37 158 11         |
| -                      | 1 035 00          |
| -                      | 37 812 65         |
| -                      | 41 758 53         |
| 3 228 40               | 10 682 86         |
| 1 213 39               | 87 293 96         |
| -                      | 106 960 95        |
| -                      | 17 728 25         |
| -                      | 57 550 24         |
| -                      | 140 754 05        |
| -                      | 742 22            |
| -                      | 50 000 00         |
| -                      | 17 547 27         |
| <u>4 441 79</u>        | <u>747 410 80</u> |
| 3 430 04               | 57 791 88         |
| <u>11 290 29</u>       | <u>786 554 77</u> |
| <u>14 720 33</u>       | <u>844 346 65</u> |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2005

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 57 791 88

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

|                      |             |
|----------------------|-------------|
| Depreciation Expense | (42 176 46) |
| Capital Outlay       | 50 000 00   |

Repayment of debt principal is an expenditure in the governmental funds, the  
repayment does not have an effect in the statement of activities but does  
reduce the debt balance in the statement of net assets.

|                                      |                  |
|--------------------------------------|------------------|
| Principal payments on long-term debt | <u>17 547 27</u> |
|--------------------------------------|------------------|

|   |                         |
|---|-------------------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>83 162 69</u></u> |
|---|-------------------------|

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS  
June 30, 2005

|   | <u>Water and<br/>Sewer Fund</u> |
|---|---------------------------------|
| ASSETS:   |                                 |
| CURRENT ASSETS:                                 |                                 |
| Cash in bank                                    | 2 655 167 63                    |
| Special assessments receivable                  | <u>5 555 14</u>                 |
| Total Current Assets                            | <u>2 660 722 77</u>             |
| NON-CURRENT ASSETS:                             |                                 |
| Capital Assets                                  | 4 721 298 62                    |
| Less: Accumulated Depreciation                  | <u>(627 750 00)</u>             |
| Total Non-current Assets                        | <u>4 093 548 62</u>             |
| TOTAL ASSETS                                    | <u>6 754 271 39</u>             |
| LIABILITIES AND NET ASSETS:                     |                                 |
| LIABILITIES:                                    |                                 |
| CURRENT LIABILITIES                             | <u>-</u>                        |
| Total Current Liabilities                       | <u>-</u>                        |
| NON-CURRENT LIABILITIES:                        |                                 |
| Contracts payable                               | <u>5 015 000 00</u>             |
| Total Non-current Liabilities                   | <u>5 015 000 00</u>             |
| Total Liabilities                               | <u>5 015 000 00</u>             |
| NET ASSETS:                                     |                                 |
| Invested in Capital Assets, Net of Related Debt | 197 250 00                      |
| Restricted for debt service                     | 710 768 19                      |
| Unrestricted                                    | <u>831 253 20</u>               |
| Total Net Assets                                | <u>1 739 271 39</u>             |
| TOTAL LIABILITIES AND NET ASSETS                | <u>6 754 271 39</u>             |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
BUSINESS-TYPE FUNDS  
Year ended June 30, 2005

|                                     | <u>Water and<br/>Sewer Fund</u> |
|-------------------------------------|---------------------------------|
| OPERATING REVENUES:                 |                                 |
| Charges for Services:               |                                 |
| Water and sewer charges             | 312 104 73                      |
| Special assessments                 | <u>338 169 08</u>               |
| Total Operating Revenues            | <u>650 273 81</u>               |
| OPERATING EXPENSES:                 |                                 |
| Water and sewer contracted services | 31 135 00                       |
| Depreciation                        | <u>101 000 00</u>               |
| Total Operating Expenses            | <u>132 135 00</u>               |
| Operating Income                    | <u>518 138 81</u>               |
| NON-OPERATING REVENUES (EXPENSES):  |                                 |
| Interest income                     | 35 810 70                       |
| Interest expense                    | <u>(170 137 50)</u>             |
| Total Non-operating Expenses        | <u>(134 326 80)</u>             |
| Change in net assets                | 383 812 01                      |
| Net assets, beginning of year       | <u>1 355 459 38</u>             |
| Net Assets, End of Year             | <u><u>1 739 271 39</u></u>      |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS-TYPE FUNDS  
Year ended June 30, 2005

|  | <u>Water and<br/>Sewer Fund</u> |
|--|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:  |                                 |
| Cash received from customers   | 649 725 17                      |
| Cash payments to suppliers for goods and services  | <u>(31 135 00)</u>              |
| Net cash provided (used) by operating activities   | <u>618 590 17</u>               |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:  |                                 |
| Proceeds from long-term debt   | 1 800 000 00                    |
| Additions to capital assets  | (681 298 62)                    |
| Principal on contracts payable   | (190 000 00)                    |
| Interest on contracts payable  | <u>(170 137 50)</u>             |
| Net cash provided (used) by capital and related financing activities   | <u>758 563 88</u>               |
| CASH FLOWS FROM INVESTING ACTIVITIES:  |                                 |
| Interest on investments  | <u>35 810 70</u>                |
| Net increase (decrease) in cash  | 1 412 964 75                    |
| Cash beginning of year   | <u>1 242 202 88</u>             |
| Cash End of Year   | <u><u>2 655 167 63</u></u>      |
| RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO<br>NET CASH PROVIDED BY OPERATING ACTIVITIES:               |                                 |
| Income (loss) from operations  | 518 138 81                      |
| Adjustments to reconcile income (loss) from operations to net<br>cash provided (used) by operating activities: |                                 |
| Depreciation   | 101 000 00                      |
| (Increase) decrease in receivables   | <u>(548 64)</u>                 |
| Net Cash Provided (Used) in Operating Activities   | <u><u>618 590 17</u></u>        |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Frankenlust, Bay County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Frankenlust. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Joint Venture

The Township of Frankenlust along with the Township of Pinconning and the Charter Township of Williams formed the Bay Area Utilities Authority in 1998. On August 24, 1999, the Authority issued \$3,170,000.00 of bonds for the benefit of the Frankenlust Township Water and Sewer System. The financial activity of the Authority is as follows:

As of 6/30/05

|   |                     |
|---|---------------------|
| Assets:   |                     |
| Contracts Receivable from Township of Frankenlust | 4 290 000 00        |
| Total Assets                                      | <u>4 290 000 00</u> |
| Liabilities:                                      |                     |
| Bonds Payable                                     | 4 290 000 00        |
| Total Liabilities                                 | <u>4 290 000 00</u> |
| Equity  | -                   |
| Total Liabilities and Equity                      | <u>4 290 000 00</u> |

For the Year Ended 6/30/05

|   |                   |
|---|-------------------|
| Receipts:                                     |                   |
| Amounts received from Township of Frankenlust | <u>299 060 00</u> |
| Expenditures:                                 |                   |
| Bond principal                                | 165 000 00        |
| Bond interest                                 | 134 060 00        |
| Total Expenditures                            | <u>299 060 00</u> |
| Excess of Receipts Over Expenditures          | <u>-</u>          |

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund are charges to customers for services. The enterprise fund also recognizes as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2004 tax roll millage rate was 1.8841 mills, and the taxable value was \$107,636,317.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

|                                       |            |
|---------------------------------------|------------|
| Buildings, additions and improvements | 50 years   |
| Furniture and equipment               | 3-20 years |

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 2 – Budgets and Budgetary Accounting (continued)

8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated seven banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

|                | <u>Carrying<br/>Amounts</u> |
|----------------|-----------------------------|
| Total Deposits | <u>3 399 239 06</u>         |

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

|                                | <u>Bank<br/>Balances</u> |
|--------------------------------|--------------------------|
| Insured (FDIC)                 | 600 028 99               |
| Uninsured and Uncollateralized | <u>2 801 116 47</u>      |
| Total Deposits                 | <u>3 401 145 46</u>      |

The Township's investments are categorized below to give an indication of the level of risk assumed by the Township. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Township or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.



TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 3 – Deposits and Investments (continued)

The GASB Statement No. 3 risk disclosures for the Township's investments are categorized as follows:

| <u>Investment Type</u>  | <u>(1)</u> | <u>(2)</u> | <u>(3)</u> | <u>Carrying Amount</u> |
|---|------------|------------|------------|------------------------|
| Risk-Categorized:<br>Operating Funds                          | <u>-</u>   | <u>-</u>   | <u>-</u>   | <u>-</u>               |
| Total Risk-Categorized<br>Investments                         | <u>-</u>   | <u>-</u>   | <u>-</u>   | <u>-</u>               |
| Nonrisk-Categorized:<br>Financial Institution<br>Pooled Funds |            |            |            | <u>77 859 62</u>       |
| Total Investments   |            |            |            | <u>77 859 62</u>       |

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u>            | <u>Interfund Payable</u> |
|-------------|-----------------------------|------------------------|--------------------------|
| General     | <u>57 73</u>                | Current Tax Collection | <u>57 73</u>             |
| Total       | <u>57 73</u>                | Total                  | <u>57 73</u>             |

Note 5 – Capital Assets

Capital asset activity of the Township's Governmental and Business Type activities for the current year was as follows:

|                                    | <u>Balance<br/>7/1/04</u> | <u>Additions</u>   | <u>Deletions</u> | <u>Balance<br/>6/30/05</u> |
|------------------------------------|---------------------------|--------------------|------------------|----------------------------|
| <u>Governmental Activities:</u>    |                           |                    |                  |                            |
| Land                               | 80 000 00                 | 50 000 00          | -                | 130 000 00                 |
| Buildings                          | 312 500 00                | -                  | -                | 312 500 00                 |
| Equipment                          | <u>504 294 60</u>         | <u>-</u>           | <u>-</u>         | <u>504 294 60</u>          |
| Total                              | 896 794 60                | 50 000 00          | -                | 946 794 60                 |
| Accumulated Depreciation           | <u>(412 270 46)</u>       | <u>(42 176 46)</u> | <u>-</u>         | <u>(454 446 92)</u>        |
| Net Governmental<br>Capital Assets | <u>484 524 14</u>         | <u>7 823 54</u>    | <u>-</u>         | <u>492 347 68</u>          |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 5 – Capital Assets (continued)

|                                     | <u>Balance<br/>7/1/04</u> | <u>Additions</u>    | <u>Deletions</u> | <u>Balance<br/>6/30/05</u> |
|-------------------------------------|---------------------------|---------------------|------------------|----------------------------|
| <u>Business-Type Activities:</u>    |                           |                     |                  |                            |
| Water and Sewer System              | 4 040 000 00              | 681 298 62          | -                | 4 721 298 62               |
| Accumulated Depreciation            | <u>(526 750 00)</u>       | <u>(101 000 00)</u> | <u>-</u>         | <u>(627 750 00)</u>        |
| Net Business-Type<br>Capital Assets | <u>3 513 250 00</u>       | <u>580 298 62</u>   | <u>-</u>         | <u>4 093 548 62</u>        |

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Pension Plan

The Township has a defined contribution pension plan covering all Township Board members. The Township contributes a percentage of each employee's wages to the plan. Pension expense for the fiscal year ended June 30, 2005, was \$17,314.96.

Note 8 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

|  | <u>Balance<br/>7/1/04</u> | <u>Additions</u>    | <u>Deductions</u> | <u>Balance<br/>6/30/05</u> |
|--|---------------------------|---------------------|-------------------|----------------------------|
| Contracts payable – roads                            | 17 547 27                 | -                   | 17 547 27         | -                          |
| Contract payable – water and<br>sewer 1999 refunding | 750 000 00                | -                   | 25 000 00         | 725 000 00                 |
| Contract payable water and<br>Sewer 1999 No. 1       | 2 655 000 00              | -                   | 165 000 00        | 2 490 000 00               |
| Contract payable sewer<br>2005 No. 2                 | <u>-</u>                  | <u>1 800 000 00</u> | <u>-</u>          | <u>1 800 000 00</u>        |
| Total  | <u>3 422 547 27</u>       | <u>1 800 000 00</u> | <u>207 547 27</u> | <u>5 015 000 00</u>        |

Note 9 – Contracts Payable – Roads

The Township of Frankenlust entered into several contracts with the Bay County Road Commission to finance various road improvements. The contracts require annual payments in varying amounts. As of June 30, 2005, the principal balance outstanding on these contracts payable was \$0.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 10 – 1999 Water and Sewer Refunding Bonds Contract Payable

On February 9, 1999, the Michigan Municipal Bond Authority issued \$870,000.00 of bonds which together with \$132,389.00 contributed by the County of Bay, was issued for the purpose of refunding the existing water bonds in the amount of \$440,000.00 and sewer bonds in the amount of \$510,000.00. The Township of Frankenlust has entered into a contract with the Michigan Municipal Bond Authority whereby the Township has agreed to make payments to the Authority in amounts sufficient to retire the bond principal and interest as they come due.

| <u>Due<br/>Date</u> | <u>Interest<br/>Rate</u> | <u>Principal<br/>Amount</u> |
|---------------------|--------------------------|-----------------------------|
| 11/1/05             | 4.05%                    | 30 000 00                   |
| 11/1/06             | 4.15                     | 30 000 00                   |
| 11/1/07             | 4.25                     | 30 000 00                   |
| 11/1/08             | 4.30                     | 30 000 00                   |
| 11/1/09             | 4.40                     | 35 000 00                   |
| 11/1/10             | 4.50                     | 35 000 00                   |
| 11/1/11             | 4.60                     | 35 000 00                   |
| 11/1/12             | 4.70                     | 40 000 00                   |
| 11/1/13             | 5.00                     | 40 000 00                   |
| 11/1/14             | 5.00                     | 45 000 00                   |
| 11/1/15             | 5.00                     | 45 000 00                   |
| 11/1/16             | 5.20                     | 50 000 00                   |
| 11/1/17             | 5.20                     | 50 000 00                   |
| 11/1/18             | 5.20                     | 55 000 00                   |
| 11/1/19             | 5.20                     | 55 000 00                   |
| 11/1/20             | 5.20                     | 60 000 00                   |
| 11/1/21             | 5.20                     | 60 000 00                   |
| Total               |                          | <u>725 000 00</u>           |

Note 11 – 1999 Water and Sewer System No. 1 Bonds Contract Payable

On August 24, 1999, the Bay Area Utilities Authority issued \$3,170,000.00 of bonds for the purpose of refunding the existing sewer bonds in the amount of \$2,750,000.00 and for acquiring and constructing certain improvements to the existing water and sewer system. The Township of Frankenlust has entered into a contract with the Bay Area Utilities Authority whereby the Township has agreed to make payments to the Authority in amounts sufficient to retire the bond principal and interest as they come due.

| <u>Due<br/>Date</u> | <u>Interest<br/>Rate</u> | <u>Principal<br/>Amount</u> |
|---------------------|--------------------------|-----------------------------|
| 5/1/06              | 4.80%                    | 185 000 00                  |
| 5/1/07              | 4.90                     | 340 000 00                  |
| 5/1/08              | 5.00                     | 355 000 00                  |
| 5/1/09              | 5.00                     | 375 000 00                  |
| 5/1/10              | 5.10                     | 390 000 00                  |
| 5/1/11              | 5.20                     | 410 000 00                  |
| 5/1/12              | 5.30                     | 435 000 00                  |
| Total               |                          | <u>2 490 000 00</u>         |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**Note 12 – 2005 Sewer Bonds Contract Payable**

On March 1, 2005, the Michigan Municipal Bond Authority issued \$1,800,000.00 of bonds for the purpose of funding improvements to the sewer system. The Township of Frankenlust has entered into a contract with the Michigan Municipal Bond Authority whereby the Township has agreed to make payments to the Authority in amounts sufficient to retire the bond principal and interest as they come due.

| <u>Due<br/>Date</u> | <u>Interest<br/>Rate</u> | <u>Principal<br/>Amount</u> |
|---------------------|--------------------------|-----------------------------|
| 9/1/07              | 3.00%                    | 30 000 00                   |
| 9/1/08              | 3.00                     | 35 000 00                   |
| 9/1/09              | 3.00                     | 45 000 00                   |
| 9/1/10              | 3.25                     | 55 000 00                   |
| 9/1/11              | 4.00                     | 65 000 00                   |
| 9/1/12              | 4.00                     | 75 000 00                   |
| 9/1/13              | 4.00                     | 85 000 00                   |
| 9/1/14              | 4.00                     | 90 000 00                   |
| 9/1/15              | 4.00                     | 95 000 00                   |
| 9/1/16              | 4.00                     | 100 000 00                  |
| 9/1/17              | 4.00                     | 105 000 00                  |
| 9/1/18              | 4.50                     | 110 000 00                  |
| 9/1/19              | 4.50                     | 115 000 00                  |
| 9/1/20              | 4.50                     | 120 000 00                  |
| 9/1/21              | 4.50                     | 125 000 00                  |
| 9/1/22              | 4.50                     | 130 000 00                  |
| 9/1/23              | 4.50                     | 135 000 00                  |
| 9/1/24              | 4.50                     | 140 000 00                  |
| 9/1/25              | 4.50                     | <u>145 000 00</u>           |
| Total               |                          | <u>1 800 000 00</u>         |

**Note 13 – Contingent Liability**

On July 1, 1978, the Bay County West Side Regional Sewage Disposal System General Obligation Bonds were issued. The bond principal and interest payments are being paid from amounts received from the system's users. As of June 30, 2005, the Township of Frankenlust is responsible for \$465,948.00 which is 7.396% of the outstanding bond principal.

**Note 14 – Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 15 – Building Permits**

As of June 30, 2005, the Township had building permit revenues of \$172,059.00 and building permit expenses of \$106,960.95.

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended June 30, 2005

|  | Original<br>Budget | Final<br>Budget   | Actual            | Variance with<br>Final Budget<br>Over<br>(Under) |
|--|--------------------|-------------------|-------------------|--|
| Revenues:  |                    |                   |                   |  |
| Property taxes                                       | 140 000 00         | 140 000 00        | 133 318 18        | (6 681 82)                                       |
| Licenses and permits                                 | 5 200 00           | 5 200 00          | 4 991 00          | (209 00)   |
| State revenue sharing                                | 170 000 00         | 170 000 00        | 171 627 00        | 1 627 00   |
| Charges for services:                                |                    |                   |                   |  |
| Property tax administration                          | 44 000 00          | 44 000 00         | 45 614 59         | 1 614 59   |
| Other  | 4 000 00           | 4 000 00          | 3 559 25          | (440 75)   |
| Interest   | 13 000 00          | 13 000 00         | 9 405 59          | (3 594 41)                                       |
| Rents  | 20 000 00          | 20 000 00         | 20 352 76         | 352 76   |
| Special assessments                                  | 10 300 00          | 10 300 00         | 7 823 54          | (2 476 46)                                       |
| Miscellaneous  | 63 000 00          | 63 000 00         | 32 041 48         | (30 958 52)                                      |
| Total revenues                                       | <u>469 500 00</u>  | <u>469 500 00</u> | <u>428 733 39</u> | <u>(40 766 61)</u>                               |
| Expenditures:  |                    |                   |                   |  |
| Legislative:   |                    |                   |                   |  |
| Township Board                                       | 122 700 00         | 102 700 00        | 70 024 24         | (32 675 76)                                      |
| General government:                                  |                    |                   |                   |  |
| Supervisor   | 27 653 00          | 27 653 00         | 25 404 38         | (2 248 62)                                       |
| Elections  | 4 500 00           | 7 500 00          | 5 644 86          | (1 855 14)                                       |
| Assessor   | 36 300 00          | 39 800 00         | 39 313 23         | (486 77)   |
| Clerk  | 30 653 00          | 46 453 00         | 37 158 11         | (9 294 89)                                       |
| Board of Review                                      | 1 300 00           | 1 300 00          | 1 035 00          | (265 00)   |
| Treasurer  | 37 953 00          | 38 453 00         | 37 812 65         | (640 35)   |
| Building and grounds                                 | 93 700 00          | 78 700 00         | 41 758 53         | (36 941 47)                                      |
| Public safety:                                       |                    |                   |                   |  |
| Law enforcement                                      | 7 000 00           | 7 500 00          | 7 454 46          | (45 54)  |
| Fire protection                                      | 95 700 00          | 101 700 00        | 72 501 92         | (29 198 08)                                      |
| Planning and zoning                                  | 19 000 00          | 25 000 00         | 17 728 25         | (7 271 75)                                       |
| Public works:  |                    |                   |                   |  |
| Highways and streets                                 | 98 041 00          | 95 641 00         | 57 550 24         | (38 090 76)                                      |
| Culture and recreation:                              |                    |                   |                   |  |
| Recreation   | 2 000 00           | 2 000 00          | 742 22            | (1 257 78)                                       |
| Capital outlay                                       | 75 000 00          | 63 500 00         | 50 000 00         | (13 500 00)                                      |
| Debt service   | 18 000 00          | 31 600 00         | 17 547 27         | (14 052 73)                                      |
| Total expenditures                                   | <u>669 500 00</u>  | <u>669 500 00</u> | <u>481 675 36</u> | <u>(187 824 64)</u>                              |
| Excess (deficiency) of revenues<br>over expenditures | (200 000 00)       | (200 000 00)      | (52 941 97)       | 147 058 03                                       |
| Fund balance, July 1                                 | <u>200 000 00</u>  | <u>200 000 00</u> | <u>342 855 64</u> | <u>142 855 64</u>                                |
| Fund Balance, June 30                                | <u>-</u>           | <u>-</u>          | <u>289 913 67</u> | <u>289 913 67</u>                                |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – TRASH COLLECTION FUND  
Year ended June 30, 2005

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u>  | <u>Actual</u>            | <u>Variance with<br/>Final Budget<br/>Over<br/>(Under)</u> |
|--|----------------------------|--------------------------|--------------------------|--|
| Revenues:  |                            |                          |                          |  |
| Interest   | -                          | -                        | 2 519 71                 | 2 519 71   |
| Special assessments                                  | <u>120 000 00</u>          | <u>120 000 00</u>        | <u>124 144 68</u>        | <u>4 144 68</u>  |
| Total revenues                                       | <u>120 000 00</u>          | <u>120 000 00</u>        | <u>126 664 39</u>        | <u>6 664 39</u>  |
| Expenditures:  |                            |                          |                          |  |
| Public works:  |                            |                          |                          |  |
| Sanitation   | <u>130 000 00</u>          | <u>142 000 00</u>        | <u>140 754 05</u>        | <u>(1 245 95)</u>  |
| Total expenditures                                   | <u>130 000 00</u>          | <u>142 000 00</u>        | <u>140 754 05</u>        | <u>(1 245 95)</u>  |
| Excess (deficiency) of revenues<br>over expenditures | (10 000 00)                | (22 000 00)              | (14 089 66)              | 7 910 34   |
| Fund balance, July 1                                 | <u>207 370 67</u>          | <u>207 370 67</u>        | <u>215 814 05</u>        | <u>8 443 38</u>  |
| Fund Balance, June 30                                | <u><u>197 370 67</u></u>   | <u><u>185 370 67</u></u> | <u><u>201 724 39</u></u> | <u><u>16 353 72</u></u>                                    |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE EQUIPMENT FUND  
Year ended June 30, 2005

|   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>     | <u>Variance with<br/>Final Budget<br/>Over<br/>(Under)</u> |
|---|----------------------------|-------------------------|-------------------|--|
| Revenues:                               |                            |                         |                   |  |
| Property taxes                          | 65 000 00                  | 70 000 00               | 68 934 40         | (1 065 60)   |
| Interest                                | -                          | -                       | 939 67            | 939 67   |
| Total revenues                          | <u>65 000 00</u>           | <u>70 000 00</u>        | <u>69 874 07</u>  | <u>(125 93)</u>  |
| Expenditures:                           |                            |                         |                   |  |
| Public safety:                          |                            |                         |                   |  |
| Fire protection                         | <u>25 000 00</u>           | <u>25 000 00</u>        | <u>13 578 65</u>  | <u>(11 421 35)</u>   |
| Total expenditures                      | <u>25 000 00</u>           | <u>25 000 00</u>        | <u>13 578 65</u>  | <u>(11 421 35)</u>   |
| Excess of revenues<br>over expenditures | 40 000 00                  | 45 000 00               | 56 295 42         | 11 295 42  |
| Fund balance, July 1                    | <u>65 147 17</u>           | <u>65 147 17</u>        | <u>71 405 69</u>  | <u>6 258 52</u>  |
| Fund Balance, June 30                   | <u>105 147 17</u>          | <u>110 147 17</u>       | <u>127 701 11</u> | <u>17 553 94</u>   |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – BUILDING DEPARTMENT FUND  
Year ended June 30, 2005

|   | Original<br>Budget | Final<br>Budget   | Actual            | Variance with<br>Final Budget<br>Over<br>(Under) |
|---|--------------------|-------------------|-------------------|--|
| Revenues:                               |                    |                   |                   |  |
| Licenses and permits                    | <u>136 000 00</u>  | <u>136 000 00</u> | <u>172 059 00</u> | <u>36 059 00</u>                                 |
| Total revenues                          | <u>136 000 00</u>  | <u>136 000 00</u> | <u>172 059 00</u> | <u>36 059 00</u>                                 |
| Expenditures:                           |                    |                   |                   |  |
| Public safety:                          |                    |                   |                   |  |
| Protective inspection                   | <u>136 000 00</u>  | <u>136 000 00</u> | <u>106 960 95</u> | <u>(29 039 05)</u>                               |
| Total expenditures                      | <u>136 000 00</u>  | <u>136 000 00</u> | <u>106 960 95</u> | <u>(29 039 05)</u>                               |
| Excess of revenues<br>over expenditures | -                  | -                 | 65 098 05         | 65 098 05  |
| Fund balance, July 1                    | <u>-</u>           | <u>-</u>          | <u>145 189 10</u> | <u>145 189 10</u>                                |
| Fund Balance, June 30                   | <u>-</u>           | <u>-</u>          | <u>210 287 15</u> | <u>210 287 15</u>                                |



TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended June 30, 2005

|                         |                  |
|-------------------------|------------------|
| Township Board:         |                  |
| Wages                   | 8 299 92         |
| Payroll tax             | 5 834 52         |
| Professional services   | 15 506 50        |
| Membership and dues     | 2 133 56         |
| Education and training  | 1 571 92         |
| Printing and publishing | 3 832 17         |
| Insurance               | 11 540 00        |
| Life insurance          | 780 69           |
| Pension                 | 17 314 96        |
| Miscellaneous           | 3 210 00         |
|                         | <u>70 024 24</u> |
| Supervisor:             |                  |
| Salary                  | 23 952 96        |
| Supplies                | 140 99           |
| Transportation          | 618 08           |
| Education and training  | 692 35           |
|                         | <u>25 404 38</u> |
| Elections:              |                  |
| Wages                   | 3 279 00         |
| Supplies                | 2 365 86         |
|                         | <u>5 644 86</u>  |
| Assessor:               |                  |
| Wages                   | 4 500 00         |
| Contracted service      | 33 278 28        |
| Supplies                | 884 95           |
| Land division fees      | 650 00           |
|                         | <u>39 313 23</u> |
| Clerk:                  |                  |
| Salary                  | 23 952 96        |
| Salary – deputy         | 2 100 00         |
| Supplies                | 1 569 36         |
| Transportation          | 930 33           |
| Education and training  | 828 83           |
| Repairs and maintenance | 7 776 63         |
|                         | <u>37 158 11</u> |
| Board of Review:        |                  |
| Wages                   | 1 035 00         |
| Treasurer:              |                  |
| Salary                  | 23 952 96        |
| Salary – deputy         | 4 500 00         |
| Supplies                | 6 005 17         |
| Education and training  | 2 619 39         |
| Transportation          | 735 13           |
|                         | <u>37 812 65</u> |
| Building and grounds:   |                  |
| Wages                   | 7 071 85         |
| Supplies                | 7 508 09         |
| Utilities               | 6 936 47         |
| Telephone               | 3 482 80         |
| Bulk water              | 2 871 20         |
| Mowing                  | 4 589 00         |
| Repairs and maintenance | 9 299 12         |
|                         | <u>41 758 53</u> |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended June 30, 2005

|                         |                          |
|-------------------------|--------------------------|
| Law enforcement:        |                          |
| Contracted services     | <u>7 454 46</u>          |
| Fire protection:        |                          |
| Wages                   | 32 524 32                |
| Supplies                | 2 393 29                 |
| Insurance               | 19 069 70                |
| Education and training  | 1 377 95                 |
| Gasoline                | 1 201 15                 |
| Repairs and maintenance | <u>15 935 51</u>         |
|                         | <u>72 501 92</u>         |
| Planning and zoning:    |                          |
| Wages                   | 10 170 00                |
| Supplies                | 248 00                   |
| Professional services   | <u>7 310 25</u>          |
|                         | <u>17 728 25</u>         |
| Highways and streets:   |                          |
| Repairs and maintenance | 38 301 06                |
| Drains                  | 1 236 79                 |
| Weed control            | 6 085 32                 |
| Street lights           | 10 201 08                |
| Brook storm sewer       | <u>1 725 99</u>          |
|                         | <u>57 550 24</u>         |
| Recreation:             |                          |
| Supplies                | <u>742 22</u>            |
| Capital outlay          | <u>50 000 00</u>         |
| Debt service            | <u>17 547 27</u>         |
| Total Expenditures      | <u><u>481 675 36</u></u> |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS  
June 30, 2005

|                                      | <u>Historical</u> | <u>Fire<br/>Equipment</u> | <u>Liquor</u>   | <u>Trash<br/>Collection</u> | <u>Emergency<br/>Service</u> |
|--------------------------------------|-------------------|---------------------------|-----------------|-----------------------------|------------------------------|
| <u>Assets</u>                        |                   |                           |                 |                             |                              |
| Cash in bank                         | 5 384 12          | 121 781 78                | 2 742 62        | 195 089 71                  | 6 593 59                     |
| Taxes receivable                     | -                 | 5 919 33                  | -               | -                           | -                            |
| Special assessments receivable       | -                 | -                         | -               | 6 634 68                    | -                            |
| Total Assets                         | <u>5 384 12</u>   | <u>127 701 11</u>         | <u>2 742 62</u> | <u>201 724 39</u>           | <u>6 593 59</u>              |
| <u>Liabilities and Fund Balances</u> |                   |                           |                 |                             |                              |
| Liabilities                          | -                 | -                         | -               | -                           | -                            |
| Total liabilities                    | -                 | -                         | -               | -                           | -                            |
| Fund balances:                       |                   |                           |                 |                             |                              |
| Unreserved:                          |                   |                           |                 |                             |                              |
| Undesignated                         | 5 384 12          | 127 701 11                | 2 742 62        | 201 724 39                  | 6 593 59                     |
| Total fund balances                  | <u>5 384 12</u>   | <u>127 701 11</u>         | <u>2 742 62</u> | <u>201 724 39</u>           | <u>6 593 59</u>              |
| Total Liabilities and Fund Balances  | <u>5 384 12</u>   | <u>127 701 11</u>         | <u>2 742 62</u> | <u>201 724 39</u>           | <u>6 593 59</u>              |

| <u>Building<br/>Department</u> | <u>Total</u>      |
|--------------------------------|-------------------|
| 210 287 15                     | 541 878 97        |
| -                              | 5 919 33          |
| -                              | 6 634 68          |
| <u>210 287 15</u>              | <u>554 432 98</u> |
| -                              | -                 |
| -                              | -                 |
| <u>210 287 15</u>              | <u>554 432 98</u> |
| <u>210 287 15</u>              | <u>554 432 98</u> |
| <u>210 287 15</u>              | <u>554 432 98</u> |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS

Year ended June 30, 2005

|  | <u>Historical</u> | <u>Fire<br/>Equipment</u> | <u>Liquor</u>   | <u>Trash<br/>Collection</u> | <u>Emergency<br/>Service</u> |
|--|-------------------|---------------------------|-----------------|-----------------------------|------------------------------|
| Revenues:  |                   |                           |                 |                             |                              |
| Property taxes                                       | -                 | 68 934 40                 | -               | -                           | -                            |
| Licenses and permits                                 | -                 | -                         | -               | -                           | -                            |
| State revenue sharing                                | -                 | -                         | 3 748 80        | -                           | -                            |
| Charges for services                                 | -                 | -                         | -               | -                           | 4 075 00                     |
| Interest   | 30 91             | 939 67                    | -               | 2 519 71                    | 17 12                        |
| Special assessments                                  | -                 | -                         | -               | 124 144 68                  | -                            |
| Total revenues                                       | <u>30 91</u>      | <u>69 874 07</u>          | <u>3 748 80</u> | <u>126 664 39</u>           | <u>4 092 12</u>              |
| Expenditures:  |                   |                           |                 |                             |                              |
| Public safety:                                       |                   |                           |                 |                             |                              |
| Law enforcement                                      | -                 | -                         | 3 228 40        | -                           | -                            |
| Fire protection                                      | -                 | 13 578 65                 | -               | -                           | 1 213 39                     |
| Protective inspection                                | -                 | -                         | -               | -                           | -                            |
| Public works:  |                   |                           |                 |                             |                              |
| Sanitation   | -                 | -                         | -               | 140 754 05                  | -                            |
| Total expenditures                                   | <u>-</u>          | <u>13 578 65</u>          | <u>3 228 40</u> | <u>140 754 05</u>           | <u>1 213 39</u>              |
| Excess (deficiency) of revenues<br>over expenditures | 30 91             | 56 295 42                 | 520 40          | (14 089 66)                 | 2 878 73                     |
| Fund balances, July 1                                | <u>5 353 21</u>   | <u>71 405 69</u>          | <u>2 222 22</u> | <u>215 814 05</u>           | <u>3 714 86</u>              |
| Fund Balances, June 30                               | <u>5 384 12</u>   | <u>127 701 11</u>         | <u>2 742 62</u> | <u>201 724 39</u>           | <u>6 593 59</u>              |

| <u>Building<br/>Department</u> | <u>Total</u>      |
|--------------------------------|-------------------|
| -                              | 68 934 40         |
| 172 059 00                     | 172 059 00        |
| -                              | 3 748 80          |
| -                              | 4 075 00          |
| -                              | 3 507 41          |
| <u>-</u>                       | <u>124 144 68</u> |
| <u>172 059 00</u>              | <u>376 469 29</u> |

|                   |                   |
|-------------------|-------------------|
| -                 | 3 228 40          |
| -                 | 14 792 04         |
| 106 960 95        | 106 960 95        |
| <u>-</u>          | <u>140 754 05</u> |
| <u>106 960 95</u> | <u>265 735 44</u> |

|                   |                   |
|-------------------|-------------------|
| 65 098 05         | 110 733 85        |
| <u>145 189 10</u> | <u>443 699 13</u> |
| <u>210 287 15</u> | <u>554 432 98</u> |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended June 30, 2005

|                              | <u>Balance</u><br><u>7/1/04</u> | <u>Additions</u>    | <u>Deductions</u>   | <u>Balance</u><br><u>6/30/05</u> |
|------------------------------|---------------------------------|---------------------|---------------------|----------------------------------|
| <u>Assets</u>                |                                 |                     |                     |                                  |
| Cash in bank and investments | <u>28 71</u>                    | <u>3 398 284 27</u> | <u>3 392 365 73</u> | <u>5 947 25</u>                  |
| Total Assets                 | <u>28 71</u>                    | <u>3 398 284 27</u> | <u>3 392 365 73</u> | <u>5 947 25</u>                  |
| <u>Liabilities</u>           |                                 |                     |                     |                                  |
| Due to other funds           | 28 71                           | 422 219 45          | 422 190 43          | 57 73                            |
| Due to others                | -                               | <u>2 976 064 82</u> | <u>2 970 175 30</u> | <u>5 889 52</u>                  |
| Total Liabilities            | <u>28 71</u>                    | <u>3 398 284 27</u> | <u>3 392 365 73</u> | <u>5 947 25</u>                  |

TOWNSHIP OF FRANKENLUST  
Bay County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
Year ended June 30, 2005

|   |                        |
|---|------------------------|
| Cash in bank – beginning of year          | <u>28 71</u>           |
| Cash receipts:                            |                        |
| Property taxes and special assessments    | 3 360 796 08           |
| Property tax administration fees          | 33 260 94              |
| Animal licenses                           | 690 00                 |
| Interest                                  | <u>3 537 25</u>        |
| Total cash receipts                       | <u>3 398 284 27</u>    |
| Total beginning balance and cash receipts | <u>3 398 312 98</u>    |
| Cash disbursements:                       |                        |
| Township General Fund                     | 174 731 27             |
| Township Fire Equipment Fund              | 63 607 05              |
| Township Trash Fund                       | 117 685 00             |
| Township Water and Sewer Fund             | 66 167 11              |
| Bay Metro Transit Authority               | 76 315 82              |
| Bay County                                | 1 678 803 13           |
| Bay Arenac Intermediate School District   | 486 091 84             |
| Saginaw Intermediate School District      | 9 850 22               |
| Bay City School District                  | 451 943 24             |
| Freeland Community Schools                | 39 566 99              |
| Delta College                             | 209 856 61             |
| Refunds                                   | <u>17 747 45</u>       |
| Total cash disbursements                  | <u>3 392 365 73</u>    |
| Cash in Bank – End of Year                | <u><u>5 947 25</u></u> |



# **CAMPBELL, KUSTERER & CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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BAY CITY, MICHIGAN 48707

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FAX (989) 894-5494

## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

August 19, 2005

To the Township Board  
Township of Frankenlust  
Bay County, Michigan

We have audited the financial statements of the Township of Frankenlust for the year ended June 30, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Frankenlust in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board  
Township of Frankenlust  
Bay County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

#### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

#### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

#### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

##### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2005.

#### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co. P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants